

Message Text

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USOECD

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E.O. 11652: N/A

TAGS: EFIN, PGOV, CA

SUBJECT: PROVINCIAL ECONOMIC ACCOUNTS AND BENEFITS OF

CONFEDERATION: THE NUMBERS GAME CONTINUED

REF: OTTAWA 2527

1. SUMMARY: STATISTICS CANADA HAS PUBLISHED "EXPERIMENTAL" ECONOMIC ACCOUNTS FOR EACH PROVINCE 1961 TO 1974. FEDERAL FINANCE MINISTER MACDONALD HAS INTERPRETED ACCOUNTS TO SHOW THAT QUEBEC REALIZED NET GAIN OVER FOURTEEN YEARS OF 1.7 BILLION CURRENT DOLLARS IN FEDERAL TAX EXPENDITURES IN QUEBEC OVER FEDERAL TAX RECEIPTS. THIS CONTRASTS WITH QUEBEC'S INTERPRETATION OF ESSENTIALLY SAME ACCOUNTS SHOWING NET LOSS TO QUEBEC OF CAN DOLS 4.3 BILLION FROM
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1961 TO 1975 (7.8 BILLION IN CONSTANT 1975 DOLLARS). MOST OF THE DIFFERENCE IS ACCOUNTED BY OPPOSING VIEWS ON INCIDENCE OF INDIRECT FEDERAL TAXES. WHILE BOTH SIDES STICK TO THEIR INTERPRETATION, BOTH AGREE ECONOMIC COSTS/ BENEFITS OF CONFEDERATION CANNOT BE ADEQUATELY MEASURED BY ECONOMIC ACCOUNTS. IMPACT OF CONFLICTING INTERPRETATIONS ON PUBLIC OPINION HARD TO MEASURE, BUT MORE LIKELY TO

REINFORCE RATHER THAN CHANGE EXISTING VIEWS ON SEPARATISM.
END SUMMARY.

2. A SPECIAL FEDERAL/PROVINCIAL COMMITTEE WORKING SINCE 1973 HAS PRODUCED SET OF CONSISTENT ECONOMIC ACCOUNTS FOR EACH PROVINCE. WEALTH OF DATA PRODUCED MAY BE OF VALUE IN ECONOMIC POLICY MAKING PROCESS, BUT CONCERN RE POLITICAL INTERPRETATION OF ACCOUNTS HAS DELAYED PUBLICATION FOR SEVERAL MONTHS. CONCERN HAS NOT BEEN LIMITED TO QUEBEC'S USE OF ACCOUNTS TO SUPPORT ITS SEPARATIST POSITION. (QUEBEC'S FAR MORE EXTENSIVE ACCOUNTS WERE PUBLISHED IN MARCH, IN PART TO SHOW THAT CONFEDERATION HAS NOT BENEFITED QUEBEC). FINAL PUBLICATION OF ACCOUNTS FOR ALL PROVINCES WAS DELAYED BY BRITISH COLUMBIA, ONCE A STRONG ECONOMIC GROWTH AREA WHERE RATES OF INCREASE HAVE RECENTLY BEGUN TO TAPER OFF. PUBLISHED FIGURES FOR BRITISH COLUMBIA HAVE BEEN FUZZED BY ADDING IN FIGURES FOR THE YUKON AND THE NORTHWEST TERRITORIES.

3. ACCOUNTS PRODUCE ESTIMATES OF GROSS DOMESTIC PRODUCT (GDP) AT MARKET PRICES, MEASURING THE VALUE OF GOODS AND SERVICES PRODUCED WITHIN EACH PROVINCE AS POTENTIAL POLICY TOOL FOR GUAGING MACRO ECONOMIC ACTIVITY. THIS CONTRASTS WITH GROSS NATIONAL PRODUCT (GNP) ACCOUNTING WHICH MEASURES INCOME EARNED BY RESIDENTS (ADDING IN INCOME EARNED OUTSIDE THE AREA BY AREA RESIDENTS AND DEDUCTING INCOME EARNED IN THE AREA BY NON-RESIDENTS.)

4. FEDERAL GOVERNMENT EXPENDITURES ABROAD ARE EXCLUDED
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FROM THE PROVINCIAL GDP ACCOUNTS AS THEY ARE NOT CONSIDERED TO CONTRIBUTE DIRECTLY TO ECONOMIC ACTIVITY IN A PROVINCE. DOMESTIC FEDERAL EXPENDITURES ARE ALLOCATED TO THE PROVINCE WHERE THE MONEY IS SPENT, IN KEEPING WITH STANDARD GDP METHODOLOGY, EVEN THOUGH THE BENEFITS OF SUCH EXPENDITURES MAY FLOW TO RESIDENTS OF OTHER OR ALL PROVINCES.

5. ON THIS ACCOUNTING BASIS, PUBLISHED FIGURES SHOW A NET LOSS TO QUEBEC OF FEDERAL TAX PAYMENTS ABOVE FEDERAL SPENDING IN QUEBEC OF CAN DOLS 5.1 BILLION OVER THE 1961-74 PERIOD IN CURRENT DOLLARS.

6. REFLECTING THEIR POLITICAL SENSITIVITY, MACDONALD URGED IN HIS STATEMENT UPON RELEASE OF THE ACCOUNTS THAT THE DATA BE TREATED WITH CAUTION. REFERRING TO QUEBEC, HE EMPHASIZED THAT IN EVALUATING DATA IN CONTEXT OF EFFECT OF A PROVINCE SEPARATING FROM CANADA, AT LEAST FOUR ADJUSTMENTS SHOULD BE MADE TO GIVE A BETTER (BUT NOT DEFINITIVE) PICTURE OF IMPACT OF FEDERAL TAXATION AND SPENDING.

ADJUSTMENTS ARE:

A. FEDERAL SPENDING ABROAD. SINCE THIS BENEFITS ALL CITIZENS, MACDONALD ASSERTED THIS AMOUNT SHOULD BE ALLOCATED TO PROVINCES ACCORDING TO POPULATION. THIS ADJUSTMENT INCREASES FEDERAL BENEFITS TO QUEBEC IN THIS PERIOD BY CAN DOLS 1.3 BILLION. HOWEVER, IN HIS STATEMENT OF APRIL 22, QUEBEC MINISTER OF INDUSTRY AND COMMERCE RODRIGUE TREMBLAY REJECTED SUCH AN ADJUSTMENT, SUGGESTED THAT QUEBEC HAS LITTLE CONCERN WITH AND DERIVED LITTLE BENEFIT FROM CANADIAN SPENDING ABROAD, SUCH AS FOR FOREIGN AID, NATO, AND REPRESENTATION.

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B. INDIRECT TAXES. THE ACCOUNTS ATTRIBUTE INDIRECT TAXES ON GOODS AND SERVICES TO THE PROVINCE WHERE THEY ARE PRODUCED TO MEASURE THE VALUE OF PROVINCIAL PRODUCTION AT MARKET PRICES. HOWEVER, MACDONALD SAID THE BURDEN OF SUCH TAXES ON "MANY" PRODUCTS SOLD INTERPROVINCIALY ARE PAID BY CONSUMERS, NOT PRODUCERS. ALLOCATING ALL DIRECT TAXES BY PLACE OF CONSUMPTION RATHER THAN PRODUCTION, REDUCES FEDERAL TAX BURDEN ON QUEBEC BY A WHOPPING DOLS 4.2 BILLION OVER THE 14 YEAR PERIOD. TREMBLAY SAID ACCOUNTING PRINCIPLES ALLOCATE INDIRECT TAXES TO PRODUCERS, AND HE INDICATED THERE WAS NO JUSTIFICATION TO DO OTHER-

WISE.

C. FEDERAL SURPLUS. THE FEDERAL GOVERNMENT RAN A DOLS 1.8 BILLION SURPLUS OVER THE 14 YEAR PERIOD. ALLOCATING THIS TO REMOVE THE EFFECTS OF STABILIZATION POLICIES FROM AN ASSESSMENT OF THE IMPACT OF FEDERAL SPENDING AND TAXATION ON A PROVINCE LOWERS THE BURDEN ON QUEBEC BY DOLS 400 LIMITED OFFICIAL USE

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MILLION. QUEBEC MADE THIS SAME ALLOCATION IN THE PRESENTATION OF ITS ACCOUNTS.

D. GOVERNMENT SALARIES IN THE NATIONAL CAPITAL REGION. ACCOUNTS ALLOCATE SALARIES OF FEDERAL EMPLOYEES WORKING IN OTTAWA TO ONTARIO, EVEN THOUGH MANY LIVE ACROSS THE RIVER IN HULL, QUEBEC. ALLOCATING SUCH SALARIES TO QUEBEC INCREASES FEDERAL SPENDING IN QUEBEC BY DOLS 800 MILLION.

7. ADDING THESE ADJUSTMENTS TOGETHER, MACDONALD ARRIVED AT A NET DOLS 1.7 BILLION INFLOW OF FEDERAL FUNDS TO QUEBEC IN 1961-1974 INSTEAD OF THE MEASURED DOLS 5.1 BILLION OUTFLOW FROM QUEBEC.

8. OTHER POSSIBLE ADJUSTMENTS NOT MEASURED BY THE ACCOUNTS INCLUDE THE SUBSIDY EFFECT TO QUEBEC OF CANADIAN TARIFFS. MACDONALD ESTIMATED THIS SUBSIDY WAS WORTH DOLS 1.5 BILLION TO QUEBEC.

9. MACDONALD EMPHASIZED ECONOMIC BENEFITS OF CONFEDERATION ARE MORE NUMEROUS AND WIDESPREAD THAN CAN BE MEASURED BY ANY SYSTEM OF ECONOMIC ACCOUNTS. HE MENTIONED BENEFITS OF A LARGE MARKET; STABLE CURRENCY; THE ABILITY TO BARGAIN INTERNATIONALLY IN CANADA'S INTEREST; THE CAPACITY TO EVEN OUT ECONOMIC FLUCTUATIONS IN DIFFERENT REGIONS; AND THE ABILITY TO BRING TOGETHER RESOURCES TO UNDERTAKE IMPORTANT ECONOMIC PROJECTS.

10.. QUEBEC LEADERS HAVE DISPUTED SUCH BROADER ECONOMIC JUSTIFICATIONS FOR CONFEDERATION, ARGUING INTER ALIA THAT THE LARGE MARKET WOULD REMAIN AFTER SEPARATION WITH ECONOMIC ASSOCIATION; THAT OTTAWA OFTEN HAS BARGAINED AWAY QUEBEC'S INTERESTS ABROAD; THAT FEDERAL FISCAL AND MONETARY POLICIES OFTEN HAVE BEEN OUT OF JOINT WITH ECONOMIC CONDITIONS IN QUEBEC; AND THAT MAJOR PROJECTS SUCH AS THE ST. LAWRENCE SEAWAY HAVE HELPED OTHERS (I.E. ONTARIO) LIMITED OFFICIAL USE

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WHILE HURTING QUEBEC.

11. COMMENT: ARGUMENT OVER INTERPRETATION OF ACCOUNTS IS PRIMARILY DIRECTED AT THE PERCEPTION OF UNCOMMITTED QUEBEC VOTERS AS TO WHETHER OR HOW MUCH THEIR STANDARD OF LIVING AND ECONOMIC PROSPECTS ARE APT TO BE HURT OR ADVANCED BY SEPARATION. THE EFFECT IF ANY OF SUCH NUMBERS GAMES ON THIS PERCEPTION REMAINS TO BE SEEN, BUT WE SUSPECT FEW WILL BE CONVINCED BY DEBATE OVER ACCOUNTING PRINCIPLES ALONE, EVEN SHOULD THEY MAKE THE EFFORT TO UNDERSTAND THEM.

12. COPIES OF PROVINCIAL ECONOMIC ACCOUNTS, METHODOLOGICAL ANNEX, AND PRESS STATEMENT BY MACDONALD WILL BE POUCHED TO INTERESTED USERS, INCLUDING EUR/CAN. ENDERS

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